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*****ARCHIVE*****

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To: Clients, Friends and Family:

What Shall We Do Now?

Like you, I have been stunned at the tragic events of September 11th. There are not words to adequately describe the loss, anger, trauma, and anxiety that we all feel over these historic events. With the total death/missing toll now somewhere upwards of 6000, our hearts and minds ache for the direct victims of the attack – for the dead and missing from New York, Boston, DC, California, most other states, and from 63 other nations. We grieve with their families, friends, and loved ones.

It is personal, I suppose, for each of us in different ways. For me, it is because early in my career, I was hired after an interview in the World Trade Center, the very first time I ever went to NYC. I then worked for a short time, in a training program in the World Trade Center on the 103rd floor and lived in a corporate apartment just three blocks away. At this time, I do not personally know anyone, but many of my friends in the industry had close acquaintances that either are known dead or are still missing. Also, in 1989, I lived and worked in Washington DC, less than one mile from the Pentagon. It is still very difficult for me to imagine the devastation and tragedy that occurred at the WTC and in our nation's capital.

This was an attack on America – on our people, our values, and our way of life. But, it was also an attack on our capitalist system – it was an attack on the heart of our financial district. It was clearly the intent of the terrorists to kill people, but it was also clearly their intent to destroy our confidence in our economy and our financial system. While they succeeded in the former, their success in the latter is up to us. I, for one, will not allow them to succeed.

As we consider the economic and investment ramifications of the attack, I ask myself several questions. I invite each of you to consider these questions and answer them for yourselves. Here is what I think and how I feel:

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Q. *Do I believe that the terrorist attack will permanently cripple our U.S. economy?*

A. No. As tragic as the events are, I feel that this is not a financial crisis for the United States. The monetary damages will amount to something like \$20 billion or about the same as hurricane Andrew about nine years ago. The U.S. economy will continue to grow in spite of the attack.

Over the last week, I went to Wal-Mart, Costco, and Kroger, just to name a few places. Last weekend, I even took my kids to the Circus, and today we went to the Mid-South Fair. Ok, this isn't big news, but I was amazed that the parking lots were full and people were spending some money. It might not be as much as before or as much as the companies would like, but they were there. You probably did something similar or will in the next week or so.

Q. *Do I believe that the terrorist attack could hurt the economy in the short run?*

A. Yes. It already has. Grounding the nation's airlines was very costly. Airport security enhancements will cause delays and be expensive; planes are flying now with significantly fewer passengers. The insurance industry will be hurt by paying over \$20 billion in claims. The industry stands ready to do that, but it will impact earnings this year. The terrorist attacks could also hurt consumer confidence a little. Any slowdown in consumer spending would delay the return to economic growth that I have expected to be right around the corner. In fact, the previous lowering of interest rates by the Federal Reserve since the beginning of the year, historically, should have started to kick the economy into gear within the next quarter. These lower interest rates allowed companies to increase capacity, but they did little for demand. With the Government's shift in policy brought upon by this disaster and beginning with the Airline Industry bailout and the rebuilding that is sure to follow, the demand side of the equation could be jump-started into higher gear.

Q. *Could the attack push us into a recession?*

A. Yes it could, for the reasons just discussed. However, I expect that it would be a short, mild recession because the economic stimuli, which would need to be applied, have already been applied starting about nine months ago.

Federal Reserve Chairman, Alan Greenspan, told Congress just last Thursday (September 20, 2001), that the devastating terrorist attacks of September 11 will damage the economy in the short-term by making Americans fearful of the future but won't dampen bright long-term prospects. "Indeed, much economic activity ground to a halt last week ... but the foundations of our free society remain sound, and I am confident that we will recover and prosper as we have in the past."

There is an interesting study that examines the returns on stocks owned during a recession. The bottom line? With 18 months of patience, investors have generally done pretty well with stocks owned during a recession. So, by maintaining my long-term outlook, I don't think we'll be hurt much even if we do have a recession.

Q. *How might the attack affect the stock market?*

A. The first four trading days since the markets reopened took about 14% off the market. These declines and those of the last 18 months, while painful to endure, have now taken much of the "over-price" risk out of the market. The financial markets will surely trade with volatility and weakness for several more days, weeks, or maybe even months, as we await stronger economic news. I think the market was oversold before the tragedy. I now think it is very oversold and frankly, represents attractive buying opportunities for the long-term investor.

However, ***your September statements will not be pretty! Virtually every account will be down since your last statement.*** The immediate future will be very shaky and probably more volatile than normal, but I believe that investors with two years of patience will be extremely pleased.

Q. *Is there any historical precedent for how the financial markets respond to crisis?*

A. Yes. Consider the last 60 years: starting with the fall of France in 1940, the DJIA (Dow Jones Industrial Average)* dropped 17%; the attack on Pearl Harbor dropped the DJIA 6.5%, and the start of the Korean war dropped the DJIA 12%. Other events immediately brought the DJIA lower: Eisenhower's heart attack - down 6.5%, the launch of Sputnik - down 9.9%, the Cuban missile crisis - down 9.4%, the assassination of JFK - down 2.9%.

Altogether, I have reviewed a list of 25 political and economic crises, which occurred over the past 60 years, including: the Arab oil embargo of 1973; Nixon's resignation in 1974; the Hunt silver crisis of 1980; the invasions of the Falklands, Grenada, Libya, and Panama; the Gulf War; the Gorbachev coup; and a host of other market crises.

The DJIA dropped an average of 6-8% at the time of the crisis. On average, after one month, the index was back up about 4%, up about 7% after two months, and up about 12% after three months. This is no guarantee of the future, but it is an interesting perspective. (Source: Dow Jones Newswires)

The DJIA is a widely known index, but it is relatively narrow. Also, we can look to the S&P 500 Index* and see similar results. For example:

	After:	<u>1 month</u>	<u>6 months</u>	<u>1 year</u>	<u>3 years</u>
Attack on Pearl Harbor (12/7/1941)		+1.6%	-1.0%	+20.3%	+81.4%
Pres. Kennedy Assassination (11/22/1963)		+2.6%	+11.4%	+18.9%	+20.9%
Iraq invades Kuwait (8/2/1990)		-4.89%	+15.9%	+26.9%	+57.7%
World Trade Center Bombing (2/26/1993)		+2.2%	+6.1%	+8.3%	+56.6%

(* Source: Ibbotson Associates 9/01)

While last week's sell-off was historic - in that it was the 5th-worst in history (in percentage terms) and the worst (in point movement terms) - it is not the end of the world. I trust that this might put some things into perspective. The undeniable trend, long-term, for the US economy is upward. Thus, the place to be (long-term) is, primarily, in equities with a well-diversified, balanced portfolio.

Q. *How might the "war on terrorism" impact the economy?*

A. I don't know. Historically, wars have been a stimulus to economies because the government spends money it otherwise might not have spent. Consider that in the last week alone, Congress authorized \$20 billion in aid for New York and another \$20 billion to pursue the terrorists. Those are powerful economic stimuli. However, coupled with war, comes the fear of war; the fear could certainly slow economic growth.

Friends, my view is that although the terrorism of two weeks ago will long be remembered as another "day of infamy," it will not have any significant long-term negative impact on the growth of our nation and our economy. The fact is that most Americans went to work all last week; most are working now. Even New Yorkers are working again, and most of the workers in the Pentagon have returned to their daily tasks. Government is operational, and so is corporate America. The terrorists cannot change that. As tragic as those events are, life goes on.

Last Monday morning (9/17/01) at 8:30 a.m., cdt, the New York Stock Exchange reopened after a four-day shut down - the longest since 1914. I was already in the office watching it on TV,

with both anxiety and patience. I observed the two minutes of silence, along with those on the NYSE floor; and, I confess I shed a few more tears as *God Bless America* was sung. Firemen and policemen then pushed the button to ring the bell that reopened the trading of America's Capital Markets. That bell now seems an almost-miraculous symbol of a robust free market that had appeared, perhaps, as vulnerable as the glass-and-steel towers; yet, it has proven to be far more resilient. It was a powerful, emotional, and inspiring moment that I'll not soon forget. The financial markets all over the world felt relief and pride that the US Markets opened in an orderly fashion, in the timetable established shortly after the closing, and without any major problems.

Also on that day, I invested client money, along with my own money, purchasing securities. Let me tell you, it felt great! It felt great to know that our system survives. It felt great to be a participant in it. And, it felt great to make investments, for myself and for clients, which I believe will reward us well in the next year and in the years to come. Two of the investments made last Monday were for my children, Rob and Catie.

This was not a proactive event for me, but rather the luck of the draw. You see, each and every month since they were born, I have invested dollars into a mutual fund for them – on or about the 15th of each month. Over the past seven years, these purchases have bought in at higher prices and at lower prices. I am doing for them what many of you are doing. What's more, I am committed to continuing this, despite any attack or threat of terrorism, because I believe that freedom and the capital markets will prevail over the long-term.

Like many of you, I have been feeling especially patriotic as of late. I felt especially patriotic buying stock last week. However, I suppose I should not have felt any differently than at any other time. Buying shares of stocks, either individually or through mutual funds, is always an expression of optimism in the continued prosperity of worldwide Capitalism, as well as faith in America's future. Still, last Monday's buying holds special meaning for me. In my own small way, I felt I was sending a message to the attackers: America is strong and resilient and united, and you are not going to break our spirit. I recommend it to you, too.

So, what shall we do now? We will continue to go to work and go to school. We'll travel. We'll go shopping. As President Bush and Mayor Guiliani have urged, we will continue to live our normal lives.

We need to remind ourselves of our reasons for investing in the first place. If our investment horizon is this month, or this quarter, or this year, we should sell all and get out; we have no place in the financial markets. *If, however, our goal is to grow our capital over the coming five years, or for the rest of our lives, we should be well-served in the financial markets.* We will review our accounts to determine that our diversifications and balances are adequate; we will consider the safety or assurances in our portfolios, and we will exercise patience, faith, hope, and courage. In other words, we will continue to do exactly what we have been doing for many years.

I came into this business nearly 20 years ago. I founded my own firm on November 1, 1989. While my business and my life have gradually changed over the last 12 years, I intend to be in this business and serve as your advisor for many more years to come. I expect to personally prosper in this business because I expect you to prosper as a result of our relationship. These are assuredly difficult times for us, for our nation, and for investors, generally, but we will stay the course and succeed! We'll invest today with quiet confidence in the future of our nation, our system, our economy, and institutions.

I have not lost hope. In fact, as I have witnessed the courageous and patriotic response of our citizens, my hope for the future has brightened. Some people may choose a darker outlook by overly focusing on today's troubles; some may even choose to abandon their long-term investment plans. However, I consider that to be a grave mistake and will not choose that path personally, nor recommend it to clients.

The truth is that our future dawns before us. The five- or ten-year investment horizon that you hear me speak of constantly will pass very quickly. The principles of long-term growth, which have served us so well over past decades, will continue to serve us well this time, also.

Thanks again for your friendship, your business, your confidence and your trust. It might be a bumpy ride, but *keep the faith*.

Sincerely,

Edwin H. Jaffe, CFP

EHJ/pc

(*The DJIA and S&P500 are unmanaged indexes. Investors cannot invest directly in an index. Past performance is no guarantee of future results.)